

City of Santa Fe, New Mexico
Notes to the Financial Statements
June 30, 2003

Condensed Statement of Revenues, Expenses, and changes in Net Assets June 30, 2003

	Housing Authority	Housing Dev. Corp.	La Cieneguita	Section 8 Vouchers	Total
Operating Revenues	\$ 1,654,299	\$ 577,842	\$ 69,329	\$ 2,972,499	\$ 5,273,969
Operating Expenses	(2,009,587)	(455,733)	(52,825)	(3,104,951)	(5,623,096)
Operating Income	(355,288)	122,109	16,504	(132,452)	(349,127)
Nonoperating Revenues (expenses)	19,306	(119,860)	586	47,550	(52,418)
Change in Net Assets	(335,982)	2,249	17,090	(84,902)	(401,545)
Beginning Net Assets	8,712,410	1,141,884	58,220	499,742	10,412,256
Ending Net Assets	<u>\$ 8,376,428</u>	<u>\$ 1,144,133</u>	<u>\$ 75,310</u>	<u>\$ 414,840</u>	<u>\$ 10,010,711</u>

Condensed Statement of Cash Flows June 30, 2003

	Housing Authority	Housing Dev. Corp.	La Cieneguita	Section 8 Vouchers	Total
Net Cash Provided (used) by:					
Operating Activities	\$ 258,602	\$ 223,183	\$ 14,074	\$ (380,027)	\$ 115,832
Capital and Related Financing Activities	(185,579)	(27,799)	-	-	(213,378)
Investing Activities	24,869	(214,860)	586	47,550	(141,855)
Net Increase (decrease)	97,892	(19,476)	14,660	(332,477)	(239,401)
Beginning Cash and Cash Equivalents	715,763	2,268,095	103,898	773,610	3,861,366
Ending Cash and Cash Equivalents	<u>\$ 813,655</u>	<u>\$ 2,248,619</u>	<u>\$ 118,558</u>	<u>\$ 441,133</u>	<u>\$ 3,621,965</u>

H. Restricted assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue Bond Current Debt Service Account (MRC)	\$ 34,981
Reserve requirement on Bond Issue (MRC)	1,513,000
Total Restricted Assets	<u>\$ 1,547,981</u>

V. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries various insurance. The City administers its insurance coverage through the Risk Management Office. The Risk Management Fund, Santa Fe Health Fund, Worker's Compensation Fund, and Retiree Health Care Fund are reported as Internal Service funds. Premiums are paid into the funds by all other funds and available to pay claims, claim reserves, and administrative costs of the programs. The City purchases commercial insurance for claims in excess of coverage provided by the funds and for other risks of loss. The City has had no significant reduction in insurance coverage from the prior year and, as of June 30, 2003; such interfund premiums did not exceed reimbursable expenditures.

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The Risk Management Fund accounts for generally liability, auto liability, public official errors and omissions and law enforcement liability through an independent conventional insurance carrier. The City is self-insured for the first \$100,000 per claim and the first \$75,000 for general liability claims.

The Santa Fe Health Fund accounts for the self – insured program for employee health and major medical benefits. Claims are handled by a professional third-party claims administrator. The City maintains specific stop loss coverage for individual claims in excess of \$100,000 and aggregate coverage of cumulative claims in excess of 125% of expected claims.

The Workers' Compensation Fund accounts for the self-insured program and for worker's compensation coverage. Claims are handled by a professional, third-party claims administrator. The City maintains specific stop loss coverage for individual claims in excess of \$250,000 with a \$1,000,000 statutory limit.

The Retiree Health Care Fund accounts for the self-insured program. The purpose of the program is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a self-funded plan. Claims are handled by a professional third-party claims administrator. The City maintains specific stop loss coverage for individual claims in excess of \$100,000, and aggregate coverage of cumulative claims in excess of 125% of expected claims.

Liabilities of the funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage award. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimated of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimated. An excess coverage insurance policy covers individual claims in various levels. Settlements have not exceeded coverages for each of the past three fiscal years with the exception of one settlement in early 2001.

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Changes in the balances of claims liabilities during the past two years are as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payment	Balance at Fiscal Year End
2001 - 2002				
Risk Management Fund	\$ 3,039,000	\$ 772,986	\$ 904,986	\$ 2,907,000
Santa Fe Health Fund	1,289,399	5,249,355	5,167,874	1,370,880
Workers' Compensation Fund	1,136,000	715,404	656,404	1,195,000
Retiree Health Care Fund	246,657	1,361,729	1,304,304	304,082
	\$ 5,711,056	\$ 8,099,474	\$ 8,033,568	\$ 5,776,962
2002 - 2003				
Risk Management Fund	\$ 2,907,000	\$ 546,675	\$ 1,221,675	\$ 2,232,000
Santa Fe Health Fund	1,370,880	6,309,401	6,366,528	1,313,753
Workers' Compensation Fund	1,195,000	690,495	612,495	1,273,000
Retiree Health Care Fund	304,082	1,791,512	1,726,463	369,131
	\$ 5,776,962	\$ 9,338,083	\$ 9,927,161	\$ 5,187,884

B. Related party transaction

The Santa Fe Civic Housing Authority purchases insurance from a family member of the Executive Director. Several qualified residents of the Housing Authority are relatives of the Executive Director.

The Santa Fe Civic Housing Authority assisted in the establishment of the non-profit entities Casas de Buena Ventura and La Cienegita Elderly Housing Corporation. These entities maintain separate Boards. However, there are certain Housing Authority employees who sit on the Boards. The Housing Authority exercises not authority or control over these non-profit organizations.

The Housing Authority performs all accounting and administrative functions for La Cienegita Elderly Housing which was opened on October 18, 2000.

C. Contingent liabilities

The City receives significant financial assistance from federal and state sources in the form of grants and entitlements. The disbursements of the funds received are generally limited to specific compliance requirements as specified in the grant agreement. During the period under audit, the City also had its grants audited under the audit requirements of the Office of Management and Budgets Circular A-133 and the U. S. Department of Housing and Urban Development. The Federal agencies reserve the right to review the scope of the audit and conduct a follow-up review if deemed necessary. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable City fund. The City, however, believes that liabilities resulting from disallowed claims, if any, would not have a material effect on the City's financial position at June 30, 2003.

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The City Attorney's Office is involved in several legal actions arising from the ordinary course of operations. With respect to these actions, the City Attorney's Office believes the outcomes will not have a material adverse effect on the City's financial position.

The Housing Authority is involved in several legal actions arising from the ordinary course of operations. With respect to these actions, their counsel believes the outcome will not have a material adverse effect on the City's financial position.

D. Jointly governed organization

Under authorization of the New Mexico State Statute 11-1-1, the City of Santa Fe joined the County of Santa Fe to jointly undertake their powers to dispose of solid waste as mandated by State and Federal regulations and provide a more efficient and cost-effective method of solid waste disposal to the City and County citizens. The Solid Waste Management Agency was established February, 1995, as a public entity separate from the City or the County. The Board of Directors for the joint venture consist of three members who are appointed by the City's mayor with the approval of the City Council and three members who appointed by the Board of County Commissioners. The Agency is charged to comply with all laws, rules, and regulations of operations under the permit issued from the New Mexico Environmental Department.

The Agency has its own financial statements as a separate entity, audited on an annual basis. The City serves as the fiscal agent. Completed financial statements for the Agency may be obtained at the Santa Fe Solid Waste Management Agency, 165 Caja Del Rio Road, Santa Fe, NM 87502-6189.

Under the authorization of the New Mexico State Statute 11-1-1 through 11-1-7 and pursuant to the New Mexico Enhanced 911 Act 63-9D-41, the City of Santa Fe joined the County of Santa Fe to jointly undertake their powers to operate and manage the Regional Emergency Communications Center District (RECC) to provide a more efficient and cost-effective method of providing centralized emergency enhanced 911 dispatch services to the region. The RECC was established as of July 1, 2002 as a public entity separate from the city or county. The Board of Directors consist of the City Manager, the City Police Chief, the City Fire chief, the County Manager, the County Sheriff, the County Fire Chief, and one member appointed by the City and County Managers to represent the community at-large. The operations physically lease space in a new County facility. The City provided funding for 69% of the expenses and the County provided 31%, an allocation which will be reviewed after a year of operations to be based on the number of calls received from each jurisdiction.

The salaries for the Director, the ITT Manager, and the initial equipment were shared equally by the City and County. The City provides the fiscal agent services. The current City and County dispatch employees became employees of the RECC.

The RECC Agency has its own financial statements as a separate entity, audited on an annual basis. The City serves as the fiscal agent. Complete financial statements for the Agency may be obtained at the Regional Emergency Communications Center, South highway 14 No. 35 Camino Justicia, Santa Fe NM 87508.

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E. Other post employment benefits

In November 1990 the City established a Retiree Health Program, which provided postretirement health and dental care benefits for retirees vested at least five years in the plan, who have a one-time opportunity to elect to participate at the time of retirement and for their dependents. At the age of sixty-five years, Medicare becomes the primary coverage. The City makes contributions to the fund in amount of one percent of all employees' annual salary. All employees, as a condition of employment for the fiscal year commencing July 1, 1991, and thereafter, contribute to the fund an amount equal to one-half of one percent of the employee's salary. Each participating retiree pays a monthly premium depending on type of coverage. The monthly premiums are generally increased each fiscal year in order to respond to changing financial exigencies. Services are provided under the same program as regular employees.

As of the year end, there were two hundred fifty two employees who had retired under PERA with the City retiree health plan. Contributions from both the City and employees become property of the Retiree Health Care Fund and are not refundable under any circumstance, including termination of employment. All contributions are transferred to the Retiree Health Care Fund on a bi-weekly basis. Insurance premiums are deducted from the retiree's monthly PERA pension check.

F. Employee retirement systems and pension plans

Substantially all of the City's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multi-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504 – 2123.

State statutes require that plan members who are police officers contribute 16.30% of their gross salary, fire fighters contribute 16.20% and regular employees contribute 13.15%.

The City is required by state statute to contribute 21.25% of fire fighters' salaries, however, as an employee benefit, the City elected to contribute 29.35% to the fire fighters' 8.1% contribution. The City is required to contribute 9.15% of regular employee salaries. In addition, the City elected to adopt the 75% pick-up provision allowed by state statute thereby contributing 19.0125% to the regular employees' 3.2875% contribution. The City is required to contribute 18.5% of police officer's salaries, however, as an employee benefit, the City elected to contribute 22.60% to the police officers' 12.20% contribution.

The requirements specified under the statute could be amended by acts of the legislature. The City's contributions to PERA for the years ending June 30, 2003, 2002, and 2001, were \$9,408,782, \$8,682,939 and \$7,855,303 respectively, equal to the required contribution.

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G. Conduit debt obligations

The City of Santa Fe has issued Industrial Revenue Bonds to provide financial assistance to private-sector and not-for-profit entities for the acquisition and construction of industrial, commercial, educational, and health care facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received from the entities involved. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entity served by the bond issuance. The City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2003, there are eight series of Industrial Revenue Bonds outstanding, of which five were issued prior to July 1, 1995. The aggregate principal amount payable for the three series issued after July 1, 1995, was \$19,495,000. The three series for educational facilities improvement and/or refunding for the College of Santa Fe and St. John's College, were for the purpose of paying and discharging certain outstanding notes, refunding outstanding bonds payable and paying for capital projects. The aggregate principal amount payable for the five series issued prior to July 1, 1995 could not be determined; however, their original issue amount totaled \$14,060,000.

The City has issued Mortgage Revenue bonds to enable the City to provide a program to assist purchasers in qualifying for home ownership and provide lower mortgage interest rates. Local banks and mortgagors participate in the program. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the State nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2003, there were three series of Mortgage Revenue Bonds outstanding, of which one issued prior to July 1, 1995. The aggregate principal amount payable for the three series issued after July 1, 1995 was \$30,500,000. The first series, Single Family Mortgage Revenue Bonds – FNMA and GNMA Mortgage Backed Securities Program – Series 1995A – with a principal amount payable of \$10,445,000, is for the purpose of acquiring single pool guaranteed mortgage pass-through securities guaranteed by the Federal National Mortgage Association. The second series, Single Family Mortgage amounts payable of \$9,940,000 and \$7,075,605 respectively, are for the purpose of financing a single family mortgage loan program with the City.